

**REPORT OF THE AUDIT OF THE
NELSON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 15, 2004



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
NELSON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 15, 2004

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2003 Taxes for Nelson County Sheriff as of April 15, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$13,387,282 for the districts for 2003 taxes, retaining commissions of \$427,953 to operate the Sheriff's office. The Sheriff distributed taxes of \$12,916,763 to the districts for 2003 Taxes. Taxes of \$16,663 are due to the districts from the Sheriff and refunds of \$767 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Eliminate The Deficit In The 2003 Tax Account
- The Sheriff's Daily Checkout Sheet Should Be Reconciled To Daily Deposit

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Dean Watts, Nelson County Judge/Executive
Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the Nelson County Sheriff's Settlement - 2003 Taxes as of April 15, 2004. This tax settlement is the responsibility of the Nelson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Nelson County Sheriff's taxes charged, credited, and paid as of April 15, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 12, 2005, on our consideration of the Nelson County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Dean Watts, Nelson County Judge/Executive
Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Eliminate The Deficit In The 2003 Tax Account
- The Sheriff's Daily Checkout Sheet Should Be Reconciled To Daily Deposit

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 12, 2005

NELSON COUNTY
MIKE NEWTON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

April 15, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,005,143	\$ 903,172	\$ 5,066,577	\$ 1,949,523
Tangible Personal Property	166,409	65,418	183,429	582,652
Intangible Personal Property				301,550
Fire Protection	673			
Increases Through Exonerations	1,868	1,139	6,514	2,161
Fire Service Fees		373,116		
Franchise Corporation	90,597	36,420	201,500	
Distilled Spirits Taxes	496,745	195,406	1,067,672	
Additional Billings	1,275	639	3,134	4,991
Limestone, Sand, and Mineral Reserves	566	231	2,153	550
Bank Franchises	109,433			
Penalties	11,510	8,220	30,864	11,908
Adjusted to Sheriff's Receipt	468	666		384
Gross Chargeable to Sheriff	<u>\$ 2,884,687</u>	<u>\$ 1,584,427</u>	<u>\$ 6,561,843</u>	<u>\$ 2,853,719</u>
<u>Credits</u>				
Exonerations	\$ 33,116	\$ 17,418	\$ 51,503	\$ 31,711
Discounts	45,163	23,976	99,849	43,464
Delinquents:				
Real Estate	28,002	22,508	69,782	27,184
Tangible Personal Property	751	295	683	1,920
Intangible Personal Property				69
Total Credits	<u>\$ 107,032</u>	<u>\$ 64,197</u>	<u>\$ 221,817</u>	<u>\$ 104,348</u>
Taxes Collected	\$ 2,777,655	\$ 1,520,230	\$ 6,340,026	\$ 2,749,371
Less: Commissions *	<u>118,338</u>	<u>52,998</u>	<u>139,481</u>	<u>117,136</u>
Taxes Due	\$ 2,659,317	\$ 1,467,232	\$ 6,200,545	\$ 2,632,235
Taxes Paid	2,642,018	1,464,002	6,180,983	2,629,760
Refunds (Current and Prior Year)	<u>13,458</u>	<u>1,296</u>	<u>9,316</u>	<u>2,600</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 3,841</u>	<u>\$ 1,934</u>	<u>\$ 10,246</u>	<u>\$ (125)</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
 MIKE NEWTON, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2003 TAXES
 April 15, 2004
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	6,679,982
2.2% on	\$	6,340,026
1% on	\$	357,274

** Special Taxing Districts:

Library District	\$	1,383
Extension District		250
Soil Conservation District		173
Northeast Nelson Fire District		(642)
New Hope Fire District		<u>770</u>
Due Districts or (Refund Due Sheriff)	\$	<u><u>1,934</u></u>

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 15, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT
AS OF APRIL 15, 2004
(Continued)

Note 4. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 8, 2003 through April 15, 2004.

Note 5. Interest Income

The Nelson County Sheriff earned \$5,594 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 6. Sheriff's 10% Add-On Fee

The Nelson County Sheriff collected \$46,326 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of April 15, 2005, the Sheriff owes \$32,326 in 10% add-on fees to his fee account.

Note 7. Advertising Costs And Fees

The Nelson County Sheriff collected \$696 of advertising costs and \$4,390 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 8. Deficit Balance

Based on available records, there is an \$8,850 deficit in the Sheriff's official tax account. The reason for this deficit could not be determined. A Schedule of Excess of Liabilities Over Assets is included in this report as a supplemental schedule.

NELSON COUNTY
 MIKE NEWTON, COUNTY SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

April 15, 2004

Assets

Cash in Bank (All Tax Accounts)		\$	197,417
Deposits In Transit			460,110
Receivables:			
Due From State	\$	125	
Due From Northeast Nelson Fire District		642	
Due From Fee Account (Jim Beam Tax Bill)		654	1,421
			<hr/>
Total Assets		\$	<hr/> 658,948 <hr/>

Liabilities

Paid Obligations-			
Outstanding Checks	\$	46,158	
Outstanding Liabilities (Paid After April 15, 2004)		564,713	
		<hr/>	
Total Paid Obligations		\$	<hr/> 610,871 <hr/>
Unpaid Obligations-			
Other Taxing Districts-			
County	\$	3,841	
Common School		10,246	
Library		1,383	
Extension		250	
Soil Conservation		173	
New Hope Fire Department		770	
10% Add-On Fees Due Fee Account		32,326	
Tax Comissions Due Sheriff's Fee Account		7,938	
		<hr/>	
Total Unpaid Obligations			<hr/> 56,927 <hr/>
Total Liabilities		\$	<hr/> 667,798 <hr/>
Total Fund Deficit as of April 15, 2004		\$	<hr/> <hr/> (8,850) <hr/>

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COMMENTS AND RECOMMENDATIONS

NELSON COUNTY
MIKE NEWTON, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 15, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Eliminate The Deficit In The 2003 Tax Account

Based on available records, the Sheriff had a deficit of \$8,850 in his official tax account. We conducted extensive testing of these records and were unable to determine the cause of the deficit. We recommend the Sheriff deposit \$8,850 from personal funds to his official tax account so that all outstanding liabilities may be paid to close this account.

Sheriff's Response:

We are investigating and will balance the account. We will continue to check where the tax bills were printed twice. The second receipt was not collected to show the adjusted amount.

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During the review of control procedures in the Sheriff's office, it was noted that the bookkeeper had access to money collected, prepared deposits, recorded receipts, and reconciled the tax account. We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Although there may be limited staff, we would recommend that procedures be put in place for another employee, preferably the Sheriff, to check the deposits and reconciliations prepared by the bookkeeper to reduce the control risk. Therefore, the lack of segregation of duties is hereby noted as a reportable condition and material weakness pursuant to professional auditing standards.

Sheriff's Response:

At this time we have a three step in place. The next collection of 2005 we will add another step for the four steps needed.

The Sheriff's Daily Checkout Sheets Should Be Reconciled To Daily Deposit

Test procedures conducted over daily receipts and deposits included the selection of nine separate daily checkout sheets and corresponding deposits. Of the nine days selected, only three daily checkout sheets agreed to the corresponding daily deposit. Technical Audit Bulletin 93-002, Section 4 requires the Sheriff to reconcile daily collections to daily deposits. We recommend the Sheriff complete and document this reconciliation on the daily checkout sheet to ensure the total collected per the daily checkout sheet agrees to the amount deposited.

Sheriff's Response:

Will check daily.

NELSON COUNTY
MIKE NEWTON, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 15, 2004
(Continued)

PRIOR YEAR COMMENT:

The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$93,086 To Protect Deposits

Comment has been corrected and is not repeated in the current year audit report.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Watts, Nelson County Judge/Executive
Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Nelson County Sheriff's Settlement - 2003 Taxes as of April 15, 2004, and have issued our report thereon dated August 12, 2005. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nelson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Daily Checkout Sheet Should Be Reconciled To Daily Deposit

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.



Report on Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Nelson County Sheriff's Settlement - 2003 Taxes as of April 15, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate The Deficit In The 2003 Tax Account

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 12, 2005

